

AUDIT & GOVERNANCE COMMITTEE

27th June 2013

Report of the Director of Finance

DRAFT ANNUAL STATEMENT OF ACCOUNTS & REPORT 2012/13

EXEMPT INFORMATION

None

PURPOSE

To receive the Draft Statement of Accounts (the Statement) for the financial year ended 31st March 2013.

RECOMMENDATION

That Members review the Annual Statement of Accounts 2012/13.

EXECUTIVE SUMMARY

Current legislation, detailed in Accounts and Audit (England) Regulations 2011, requires the Council to prepare a Draft Statement of Accounts by 30th June each year (approved by the Council's Chief Finance Officer - the Executive Director Corporate Services), a Committee of the Council to approve the Statement by 30th September and for the Council to publish the Statement together with the Auditors' opinion by 30th September 2013.

The draft accounts once signed by the Executive Director Corporate Services, will be issued to the External Auditor on or before 30th June in compliance with the regulations and are subject to the normal External Audit review by the Audit Commission.

Although there is now no formal requirement for this Committee to approve the accounts prior to audit, it is considered best practice that members have the opportunity to review the accounts. The Draft 2012/13 Statement of Accounts (subject to audit) are being finalised and will be circulated prior to the meeting.

This Committee will be required to formally approve the final Statement of Accounts by the 30th September 2013, following the receipt of the External Auditors' 'Report to those charged with Governance' on the accounts.

Key issues affecting the 2012/13 accounts / accounting process are detailed within the report.

RESOURCE IMPLICATIONS

For 2012/13, a revenue budget underspend for the General Fund of £0.668m is reported with a reduction in General Fund closing balances of £0.102m. The Housing Revenue Account reports an underspend of £1.90m with an increase in Housing Revenue Account closing balances of £0.78m.

It should be noted that the Medium Term Financial Strategy identified required balances of £4.222m (at 1st April 2013) compared to the draft actual closing balances of £4.619m - additional balances of £0.397m. For the HRA balances of £4.774m were forecast at 1st April 2013 compared to the actual balances of £5.267m - additional balances of £0.493m. Balances above the minimum will be required to provide additional funds for uncertainties regarding future Government funding arrangements.

The outturn for the 2012/13 capital programme identifies an underspend of £5.885m against the approved budget of £10.872m (actual spend £4.987m - no change since Provisional Outturn). However, it has been requested that £4.778m of scheme spend be re-profiled into 2013/14. This will result in an overall underspend of £1.107m for the 2012/13 capital programme.

LEGAL / RISK IMPLICATIONS

Current legislation, detailed in Accounts and Audit (England) Regulations 2011, requires a Committee of the Council to approve the Statement by 30th September 2013 and for the Council to publish the Statement together with the Auditors' opinion by 30th September 2013.

REPORT AUTHOR

Stefan Garner, Director of Finance

LIST OF BACKGROUND PAPERS

Capital Outturn Report 2012/13 - Cabinet, 20^h June 2013
Provisional Outturn Report 2012/13 - Cabinet, 20th June 2013

BACKGROUND INFORMATION

An updated Code of Practice applicable for 2012/13 was issued by CIPFA in January 2012 and the changes reflected in this review must now be incorporated into the Council's 2012/13 accounts, together with relevant changes to accounting policies.

This update to the Code provides accounting guidance on regulations issued and on other legislative developments since the original code was issued.

The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial

Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2012. It supersedes the 2011/12 Code.

In England and Wales, the Code is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21(2) of the Local Government Act 2003. All English authorities to which section 21 applies and that are required to prepare a Statement of Accounts by the Accounts and Audit Regulations under section 27 of the Audit Commission Act 1998, therefore have a statutory duty to comply with the Code's requirements.

The 2012/13 Code introduces some changes in accounting practice which the Council needs to comply with.

CHANGES IN ACCOUNTING POLICY FOR 2012/13

The need for changes in accounting policy can arise from:

(i) changes that are mandatory under the annual IFRS based *Code of Practice on Local Authority Accounting* and require a new or revised accounting policy to be adopted by all local authorities;

(ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances.

The changes required to the Council's accounting policies for 2012/13 therefore arise from an updated IFRS based *Code of Practice on Local Authority Accounting* issued by CIPFA in January 2012.

Many of the changes reflected in the 2012/13 code & code update do have to be incorporated into the Council's accounts but do not necessarily impact on its accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

Following the significant changes in Local Authority Accounting in recent years, 2012/13 is a year of consolidation with relatively few new requirements as set out below:-

- Explanatory Foreword: The Code encourages local authorities to draft their Explanatory Forewords in line with guidance of the requirements of the Government's Financial Reporting Manual. However CIPFA have not prescribed a sector-specific format, and therefore the lay-out of the Explanatory Foreword will remain a local judgement. However, a review has been carried out with the emphasis on 'de-cluttering' the accounts to remove unnecessary information and duplication.

- A number of amendments published as part of the update to the 2011/12 Code issued in early 2012.

SIGNIFICANT TRANSACTIONS IN 2012/13

- Tamworth Borough Council own the freehold to an 18 hole golf course at Amington. Following a tender process in 2006, Tamworth Golf Centre (Jack Barker Golf) was appointed the lease and an operating agreement in 2007. The Council received a rental payment from the company, which was responsible for operating the golf course and was required to invest in the facilities. Tamworth Golf Centre entered a company voluntary arrangement, and the Council agreed to a reduction in the rental payment and a renegotiation of the terms of the lease, in 2012.

However, the company entered into liquidation in February 2013. At a meeting of the Council's Cabinet on 26th March, it was resolved that the Council would operate the Golf Course for an interim period whilst considering the longer term sustainability of the course.

As a result, the accounting entries for the lease arrangement (for the buildings element) have been reversed (approx. £300k) and the asset recognised on the balance sheet – at a reduced value reflecting its use as an operational asset. This is reflected within the Cultural & Related Services line of the CIES.

- The pension fund deficit has increased in the year to £34.415m (2011/12 £28.118m) as financial assumptions are less favourable at 31st March 2013 than the previous year - this is required to be shown on the balance sheet of the Authority. The increased liability is as a result of a fall in the net discount rate of around 0.3% which was partially offset by greater than anticipated asset returns – as reflected in the Actuarial Gains / Losses on Pension Assets / Liabilities line of the Comprehensive Income & Expenditure Account.

The Council's accounts for 2012/13 consist of the following:

▪ **Core Financial Statements:**

▪ **Movement in Reserves Statement:** shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

▪ **Comprehensive Income & Expenditure Account:** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- **Balance Sheet:** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.
- **Cash Flow Statement:** shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.
- **Supplementary Statements:**
 - **Housing Revenue Account:** reflects the statutory requirement to maintain a separate account for Council Housing.
 - **The Collection Fund:** shows the non-domestic rates and council tax income collected on behalf of Staffordshire County Council, the Police Authority, the Fire & Rescue Authority and this Council's General Fund.

These accounting statements are supported by appropriate notes to the accounts including the Statement of Accounting Policies - this provides details of the framework within which the Council's accounts are prepared and published.

GENERAL FUND, HOUSING REVENUE ACCOUNT & CAPITAL OUTTURN

Below are details of the outturn fund balances for the General Fund and the Housing Revenue Account together with a summary of the outturn position on Capital Expenditure for the year.

GENERAL FUND

When compared to the final approved budget (which reflects decisions made by members during the financial year) an under-spend of £668k is reported, £125k more than reported in the provisional outturn report.

Closing General Fund balances as at 31st March 2013 were £4.619m:

General Fund Balances Movement 2012/13	Final Outturn £'000	Projected Outturn £'000
Balances B/fwd.	4,721	4,721
Approved Budget transfer To / (From) balances	(770)	(770)
Approved Budget Changes during year	0	0
Outturn variance - Surplus	668	543
Balance C/fwd.	4,619	4,494

The main changes since the provisional outturn was prepared are due to:

- Net additional income arising from the reduced impairment of Icelandic deposits following an improvement in the forecast financial position and additional interest and an exchange rate improvement relating to the funds held with Icelandic Bank Glitnir, £113k; and
- A net increase in recharges to the Housing Revenue Account following finalisation of year end costs, £10k;

In addition to these, the remainder of the favourable outturn variance of £0.668m is mainly attributable to savings made in the following areas:

- write back of unspent reserves, £117k;
- a net reduction in the joint waste management arrangement costs of £202k (including unexpected income from bulky waste of £27k);
- vacancy allowance & Contingency budget not required to be released, £73k
- a reduction in interest payable of £125k, offset by a reduced interest cost recharge relating to Housing debt, £92k.

It should be noted that the Medium Term Financial Strategy identified required balances of £4.222m (at 1st April 2013) compared to the draft actual closing balances of £4.619m – the additional balances of £0.397m above this minimum will be required to provide additional funds for uncertainties regarding future Government funding arrangements.

Members should be aware that any unplanned call on the above balance could adversely affect the Authority's ability to resource activity within the Medium Term Financial Strategy period.

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) is underspent against the approved budget for the year by £1.9m, £10k less than reported in the provisional outturn report. The Housing Revenue Account balances as at 31st March 2012 were £5.267m.

HRA Balances Movement 2012/13	Final Outturn £'000	Projected Outturn £'000
Balances B/fwd.	4,487	4,487
Approved Budget	(1,120)	(1,120)
Approved Budget Changes during year	0	0
Outturn variance - Surplus	1,900	1,910
Balance C/fwd.	5,267	5,277

The change since the provisional outturn was prepared is mainly due to:

- An increase in recharges to the Housing Revenue Account following finalisation of year end costs, £10k;

In addition to these, the remainder of the outturn variance surplus of £1.9m shown above is mainly attributable to the following areas:

- write back of unspent reserves, £103k;
- Lower Debt / Capital Charges from the General Fund, £54k and additional interest on balances, £59k;
- Council House Rents income higher than budget due to a quicker turnaround of void properties reducing overall void levels, £118k;
- Savings in Repairs & Maintenance costs across multiple contracts, £1.4m.

It should be noted that the Medium Term Financial Strategy identified balances of £4.774m (at 1st April 2013) compared to the draft actual closing balances of £5.267m, which means additional balances of £493k.

CAPITAL OUTTURN

The outturn for the 2012/13 capital programme identifies an underspend of £5.885m against the approved budget of £10.872m (actual spend £4.987m - no change since Provisional Outturn). However, it has been requested that £4.778m of scheme spend be re-profiled into 2013/14. This will result in an overall underspend of £1.107m for the 2012/13 capital programme.

Full details are contained within the Capital Outturn Report reported to Cabinet on 20th June 2013.

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